

IREN Group: The Board of Directors has approved the Business Plan for 2020

The plan to 2020 represents a "bridge" towards a new IREN which, through continuous innovation, the streamlining of internal processes, the selection of investments according to profitability and a focus on new customer needs, aims to become an aggregator and a driver of development in its reference areas.

Strategic Guidelines

- **Integration and efficiency aimed at the achievement of significant synergies.**

The Group has drawn up a **plan of profound renewal** called the **"performance improvement" plan**, involving **all business areas** which, through the optimization of processes already identified, corporate rationalization and considerable investments in infrastructures, systems and ITC will permit the achievement of significant cost synergies together with a leaner, faster and more focused company, able to face future challenges more effectively.

- **Focus on customers who, from simple end-users, will become engaged stakeholders, through innovative and digital communication and customer care systems.**

The **role of the Client** in the commercial relationship is changing: from that of a passive to an **active party**. IREN is putting in place **innovative and interactive tools** to create a more satisfactory and involving customer experience. The aim is to turn the simple provision of a commodity into a **personalized service with high added value**, decreasing the *churn-rate* and increasing the Group's appeal to prospective Clients

- **Cross Innovation considered not as a separate element, but as mind-set that permeates the essence and actions of the Group.**

IREN will implement an **"open innovation" model** involving all business areas and focused on the achievement of **efficiency targets**, improvement in services quality, creation of business opportunity, in order to anticipate the new needs of citizens, Clients and territories.

- **Sustainable development: in environmental and financial terms, resulting in the selection of investments with high added value for the Group and the territory.**

IREN confirms and strengthens its "green" approach through a capex plan focused on eco-friendly activities: district heating networks expansion, plant consolidation linked to the "Waste to material" philosophy, and smart-metering and smart-grid projects implementation.

Iren Group

Images

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Iren Overview

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Economic and financial indicators

- **EBITDA in 2020 of approximately 860 million euro**, an increase of about 220 million euro compared to 2014, with an annual growth rate of 5.1%. 85% of this result will already be achieved by 2018 (Cagr 6.8%). About 75% of the Group's EBITDA will come from regulated and quasi-regulated activities.
- **Synergies of 75 million euro**, 80% of which will be achieved by 2018.
- **Net income during the period will substantially double**. This will allow for an increase in dividend per share compatible with the deleveraging objectives pursued by the Group.
- **Cumulated capex will total 1.8 billion euro**, of which 630 million in development activities. Of the total cumulated capex, 450 million (about 3% of cumulated revenues) will be spent on projects with innovative technological features.
- **Debt in 2020 falling by 300 million euro** to arrive at under 2 billion. A sharp fall in the net debt/EBITDA ratio: from 3.7 to 2.9 times in 2018, reaching 2.3 times in 2020.

Reggio Emilia, 17th June 2015 – The Board of Directors of IREN SpA has yesterday evening approved the business plan for 2020.

The business plan to 2020 outlines a **development path** which, starting from an important **integration and rationalization process**, increases the Group's efficiency and effectiveness, allowing IREN to become a **major pole of attraction and a driver of development in the territories** in which it operates and with whom it shares the value created.

This path starts with an important efficiency improvement process called "**performance improvement**", considering "**optimization**" as the key principle for attaining **significant cost-synergies**. Various areas are involved in the project: firstly the procurements area, which will benefit from the review of standard contract terms and the development of a single procurement platform which is already being implemented. In addition, the optimization of operating, commercial and corporate processes carried out in all the structures and at all levels will generate significant improvements in the Group's competitiveness. Last but not least, considerable organizational optimizations will be pursued, supported by a deep innovation and linked to corporate rationalization and to the standardization of ITC systems. "*Performance improvement*" is not, however, the only path towards attaining efficiency maximization. The "**generational turnover**" project is also an inherent part of the plan. It was launched at the end of 2014 and, through the targeted recruitment of approximately **600 new young workers** over the period covered by the plan, will bring new skills into the Group enabling it to better face future challenges.

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In addition, there will be extensive and **pervasive use of innovation, supported by a major investment plan** that will allow for a greater integration and standardization of procedures, especially those related to Information Technology.

The Group's commitment to carry out all these activities will enable it to achieve about **75 million euro of synergies, 80% of which will already be achieved by the end of 2018**, creating the conditions needed to support the development initiatives planned.

Efficiency and financial sustainability will be the key strategic pillars to successfully exploit the **growth drivers** identified in the business plan, mainly linked to the development of regulated and quasi-regulated businesses and a strong focus on energy customers.

As far as the first point is concerned, a particularly important factor is the **expansion of district heating networks** that will enable fuller exploitation of already existing cogeneration and environmental plants (WTE). In addition, there will be an increase in the size and margins of the Waste sector, driven by the consolidation of the companies that manage the integrated waste cycle in the city of Turin and in parts of the province: AMIAT and TRM.

As for the **expansion of the customer base**, this objective is part of a broader strategy aimed at treating customers as a **key part of the energy value chain**, of which the **Group intends to maintain control in the future**.

In addition to the operating objectives as outlined, it is necessary to **strengthen the financial and capital structure**: the cash generated by the operating results will be complemented by a tight control of the dynamics of **working capital. It is expected to decrease by approximately 100 million euro** and will fully cover the financial needs resulting from the significant investment plan, expected during the whole period to total about 1.8 billion euro, of which **630 million will be dedicated to development activities**. The latter will consist in modular and integrated initiatives, mainly in the Waste and district heating sector, with significant innovation and sustainability characteristics.

Based on these strategic lines Iren Group aims to achieve the following key economic and financial objectives:

- **EBITDA growth of approximately 220 million euro**, which will bring the Group's EBITDA to 860 million euro in 2020 (Cagr 5.1%). It is important to point out that 85% of these results will be achieved by 2018.
- **Group Net Profit constantly growing**, substantially doubling in 2020 compared to the figure reported for 2014.
- **A financially sustainable and satisfactory dividend policy** for the shareholders, characterised by a floor equal to the dividend which will be paid in 2015 (€ 0.523 per share) and by a growth of approximately 10% from 2018 onwards.
- An **improvement in net debt/EBITDA ratio** which will stabilize below 3 times from 2018, reaching **2.3 times in 2020**.

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- Its development as an **aggregation pole in the reference territories**, taking advantage of the recent Government actions to support consolidation between utility companies and local public companies. From this standpoint, the strategy pursued is to complete its business portfolio, moving from a provincial to a regional level and consolidating when possible companies in which IREN already owns an equity stake. Despite the various opportunities in the market, which the Group is strongly committed to exploit, a prudent approach has been adopted and **no M&A options have been included in the business plan**.

These results will permit the Group to achieve an **added value of approximately 1.5 billion euro per year with a significant impact on the territories**: 300 million in favour of employees, 1,100 million for materials and services providers and 100 million euros devoted to the shareholders.

Details are given below for each business area.

GENERATION AND DISTRICT HEATING

The main growth driver in the business unit is linked to the **expansion of district heating networks** (including a heating storage system) which will reach **100 mcm of volume heated**, with an increase of 20 mcm in absolute terms and 25% in percentage terms. The measures taken by the Company will allow for **fuller use of the existing cogeneration plants**, and will enable exploitation of the heat generated through waste thanks to the WTE to heat systems in Turin, Parma and Piacenza.

In the **hydroelectric sector**, the Group aims to **keep its concessions** and to optimize its plant portfolio, mainly through the modernization of the Chiomonte/Susa plant.

Last but not least, the **cogeneration/thermal sector** will benefit from the improvement in the energy commodity scenario expected in the next few years (**these assumptions have been applied in a prudent way in the business plan**) together with capacity market, due to start in 2017.

All these elements will contribute to maintaining **growth in sector margins in spite of the expiry of the green certificates (worth approximately 60 million euros)** related to cogeneration and partly to hydroelectric production.

The contribution of the Generation and district heating business unit to the Group's 2020 EBITDA will reach 27%. **Cumulated capex will total approximately 460 million euro** and will contribute to maintaining a high environmental sustainability profile for the Group plant-portfolio, whose electricity production from renewables and renewable-like sources will reach 80% of the total.

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MARKET AND ENERGY EFFICIENCY

The strategic pillar on which the business unit evolution is based is a **focus on the Client, considered a fundamental asset of the Group**. Through continuous innovation in communication and customer-care services IREN aims not only at improving the loyalty of the **current client-base**, but at significantly **expanding it both in its reference areas and in external areas** where the results of recent commercial campaigns carried out by the Company have generated significant opportunities.

These activities, together with the new drive towards **energy efficiency, domotics and smart conditioning**, which aim at turning the provision of the energy commodity into a high added value service, are the means for achieving the **growth target of more than 25% in the client base** included in the business plan.

The increase in clients will also have an effect on the Group's sources/uses scheme.

As far as electricity is concerned, in fact, production from **internal sources will cover almost 90% of total needs**; taking into account the total energy sold, the percentage of the part devoted to Clients is destined to grow; in contrast, the part destined to IPEX is expected to decrease.

With regards to **gas, the Group will maintain a substantial short-term supply component**, whereas the part deriving from long-term contracts will stay below 15% of the total sources.

The contribution of the Market and energy efficiency business unit to the Group's 2020 EBITDA will be 13%, while cumulated capex will total 190 million euros.

NETWORKS

The business plan to 2020 provides for a **deeper integration between the different kinds of business networks** which will enable the achievement of significant synergies thanks also to the full utilization of **innovative work-force management tools**. The latter, along with substantial investments, will offset the negative effect of a possible reduction in return on invested capital deriving from the review of the tariff mechanism expected from 2016.

In more detail, as far as the **electricity networks** are concerned, the business plan to 2020 provides for **substantial continuity** in operations, in terms of perimeter, and the setting up of a number of renewal and enhancement projects

As for the upcoming tenders in the **gas sector**, the aim is **to consolidate management in all the areas** in which IREN is incumbent and owns a majority stake and to extract values from the ATEMs in which it owns a minority stake.

As far as the **water networks** are concerned, a corporate **rationalization and development project** has been set up (leading to the absorption into Iren Acqua Gas of the Società Acque Potabili company branch managing networks in Liguria) from which relevant synergies are expected.

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The contribution of the Networks business unit to the Group's 2020 EBITDA will be equal to 39%, with 920 million euros of cumulated investments. A part of these will be devoted to the implementation of **smart-metering activities** which will generate efficiency in consumptions and new business opportunities.

WASTE

Organic growth of the sector will be characterized by the “Waste to material” philosophy, an approach therefore oriented towards waste sorting, recovery and recycling process in which IREN intends to play a leading role. This will result in a significant increase in plant capacity with regards to sorting and treatment, especially of paper, plastic and organic waste. The saturation of capacity will be ensured by a **further increase in sorted waste** in the areas in which Iren operates: already a top performer in the Emilia areas, expansion in the Turin metropolitan area is expected.

From this point of view, the introduction of punctual tariff mechanisms (due to start with the city of Parma from July 2015) is particularly important. In addition there will be a significant development of free market activities, the first results of which have already been obtained in 2014 **(+ 25% increase in special waste collected)**.

The Waste sector will be the sector to benefit most from the **expansion activity in its own reference areas** planned in the coming years. In particular, the Group will enlarge its consolidation area to include both **AMIAT**, the company that manages waste collection and the setting up of waste disposal in the city of Turin, and **TRM**, the company that manages the WTE in Turin and which serves most of the province. This will lead to an 80% increase in urban waste collected, to a tripling of waste to energy capacity and will **confirm IREN as an aggregator in these territories**.

The contribution of this business segment in terms of the Group's EBITDA in 2020 will increase from 8% in 2014 to 21% in 2020, with a technical cumulative capex (excluding consolidations) of approximately 180 million euro. The innovative approach of the majority of them confirms the Group's attention to the issues related to environmental sustainability and will help to **reduce CO2 emissions by 8% in 2020 compared to 2014**.

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IREN GROUP – ECONOMIC AND FINANCIAL BUSINESS PLAN - KPIs

		2014	2018	2020	CAGR '14-'18	CAGR '14-'20
Revenues*	m€	2.881	3.300	3.500	3,5%	3,3%
EBITDA*	m€	638	830	860	6,8%	5,1%
EBIT*	m€	341	420	440	5,3%	4,3%
Group Net Profit*	m€	100	175	190	15,0%	11,3%
Net Financial Position**	m€	2.286	2.400	1.970		
Net Fin. Position/EBITDA**		3.7x	2.9x	2.3x		

*Adjusted

**Reported

“The new industrial plan on which the Group has worked intensively over the first six months of the year is a turning point for IREN, focusing on the concept of “Change” as a major strategic guideline” **Chairman Francesco Profumo** declared on behalf of the Board of Directors, adding “Change, first of all, is a role assigned to the Customer who will become an active stakeholder, able to influence the design and characteristics of the service provided thanks to innovative and, most of all, participatory technological instruments. The role of technological innovation will itself change, no longer limited to single projects, but becoming a key factor for all strategic choices.”

The role of investments in development will also change, becoming modular, integrable and focused on activities which IREN already manages. What will not change, on the other hand, is the Group’s ambition to become an aggregator and a driver of development in its reference areas.

“Change, coupled with technological innovation” – declared **the Group’s CEO, Massimiliano Bianco**, – “will underpin important actions for integration, the rationalisation of processes and the maximisation of efficiency characterising IREN’s operations over the next six years, allowing for the achievement of important synergies. In addition, important projects will be set up for both internal and external growth based on realistic scenario assumptions and on clear visibility in terms of results. The soundness of the business plan targets is further reinforced by the exclusion of the contribution of M&A operations, in spite of the strong commitment of the Group to be a leading player in the rationalization and consolidation of local public companies in its reference areas (for which Government is giving its support). This process could therefore lead to incremental margins not currently taken into account.

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